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SUBJECT: Delayed Commercialization of Electric Utility

REF: Kabul 2670

¶1. (SBU) Summary: Ministry of Electricity and Water (MEW) delays are threatening completion of the much-needed commercialization of the electricity utility DABM (Da Afghanistan Breshna Mosesa). The utility subsidizes electricity prices for all customers and supplies electricity to numerous non-paying users, thus creating a severe drain on the Afghan government's budget. Asian Development Bank and the World Bank representatives have said the DABM's continued inability to recover costs could undercut international donor support for projects to import power and increase electricity generation capacity in Afghanistan. USAID estimates gross losses will reach USD \$200 million by 2015, if current conditions continue.

To address this problem and at the instigation of the World Bank, the Afghan government this summer launched DABS (Da Afghanistan Breshna Sherkat), a semi-autonomous commercialized utility. However, MEW continues to drag its feet with the result that if the transfer of assets from the public utility does not take place before October 6, the DABS may dissolve, setting back efforts to stop these revenue losses. Embassy Kabul and other donors are working with the Government of Afghanistan to encourage the transfer of assets before this deadline. End summary.

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Inefficient Utility Needs Commercialization
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¶2. (U) The DABM government electric utility is widely considered inefficient and corrupt. Even under the most optimistic modeling assumptions, DABM is projected to show losses over the next ten years. The DABM receives no payment for between 35 to 60 percent of electricity supplied, but with commercialization these losses can be reduced to approximately 25 percent. USAID, the World Bank, and others have pledged to fund a commercialization and loss-reduction program for DABS to cut both technical losses (physical leakage of electricity from distribution systems) and commercial losses (inadequate metering, billing, and collections). The loss-reduction program should save an estimated \$482 million between 2008 and 2015.

¶3. (U) The USAID-facilitated commercialization contract will introduce new metering, billing, and collection systems, in addition to some capital improvement projects. A more regular flow of income to the utility will then allow for improved operation, maintenance, and staff development, and training. Customers will benefit from increased availability, reliability, and safety of power supplies. There will also be a strengthened social compact with the utility in which customers expect to pay and demand a corresponding level of service.

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Tensions among MEW, Presidency, and Utility
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¶4. (SBU) The semi-independent, commercialized (but not private) utility entity DABS (Da Afghanistan Breshna Sherkat) is ready for a transfer of physical assets and personnel from the current public utility DABM (Da Afghanistan Breshna Mosesa). Asset transfer will

require Ministry of Finance approval. Minister of Economy Mohammad Jalil Shams, who is also the President and CEO of DABS, told Emboffs that the MEW is reluctant to hand over assets and transfer people as agreed, using the elections and possible run-offs as a delaying tactic.

15. (SBU) Many donors in Kabul worry MEW's reluctance stems from the loss of a potential revenue stream from illegal electricity connections. In an August 30 Inter-Ministerial Commission for Energy (ICE) meeting, MEW Deputy Minister Ghulam Faruq said the transfer timing is a "political decision." Tawab Asifi, Energy Advisor to President Karzai, replied the transfer of assets from MEW to DABS was decided by Presidential decree and is an Afghan government commitment. Asifi recommended the Ministry of Finance, which was not present at the meeting, transfer the assets "now."

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Donor Anxiety Gets MEW Attention
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16. (SBU) Under the legislation that created DABS, the corporation must be capitalized within 90 days of its creation. Without an infusion of capital, DABS could be dissolved October 6 and the reform of the power sector and efforts to increase the reliable supply of electricity - important to supporting job creation and stabilization efforts - will suffer. At the August 30 inter-ministerial meeting, the Asian Development Bank representative warned if the delay of the asset transfer led to a failure of the commercialization program, it would affect future donor funding decisions. The World Bank representatives agreed. MEW officials were clearly concerned by these warnings.

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17. (SBU) The Asian Development Bank (ADB) representative told other donors at a private meeting September 14 that \$570 million in loans may be redirected or lost if DABS dissolves, because ADB's board of directors is insistent the money go to DABS and not the inefficient DABM. The World Bank representatives added their concerns saying the World Bank is reluctant to proceed with energy sector investments without DABS. The donors, including USAID, agreed to lobby the ministries of Energy and Water and Finance as a group, to express their concerns.

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Comment
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18. (SBU) The approaching October 6 deadline has raised donor concerns. The Embassy, along with other donor representatives, will continue to lobby intensively at multiple levels in the Afghan government to urge the transfer of assets and resulting capitalization of the DABS electric utility company. End comment.

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